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C O N F I D E N T I A L SECTION 01 OF 03 SARAJEVO 001183

SIPDIS

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SUBJECT: BOSNIA: POLITICAL STANDOFF OVER UTILITY CONTINUES,
IMPACT ON POWER SUPPLY FELT

REF: SARAJEVO 1110

Classified By: DCM Jonathan Moore for reasons 1.4 (b) and (d).

Summary

1. (SBU) The state electricity transmission company of Bosnia and Herzegovina, Transco (Elektroprenos), has like other state institutions become a victim of political squabbling. However, unlike some other examples of dysfunction that do not affect the general public, there are concrete consequences for electricity transmission. While the dispute is illustrative of continued disputes by the Republika Srpska to assert its authority and challenge decisions by High Representative Inzko, power blackouts have begun to occur and -- as an early winter arrives -- may be followed by wider problems in the near future. End Summary.

HIGH REP AND SUPERVISOR DECISIONS ON TRANSCO

2. (SBU) The state-level electricity transmission company Transco (known locally as Elektroprenos) was established by law in 2004, though the company did not begin operating officially until 2006. In an effort to unbundle the energy sector, Bosnia, with the assistance of the international community, created Transco to own and operate the electricity transmission assets previously held by the three ethnically-based power companies Elektroprivreda BiH (Sarajevo), Elektroprivreda HZHB (Mostar) and Elektroprivreda RS (Banja Luka). In anticipation of the September 19 expiration of Transco General Manager Dusan Mijatovic's mandate and after a year of Transco's institutional paralysis, High Representative (HighRep) Valentin Inzko exercised Bonn powers on September 18 requiring Mijatovic (from the RS) to remain in office until a new general director could be selected in an orderly manner. Inzko included provisions enabling the Transco board to appoint Transco's Executive Director for Planning, Azra Hajro, a Bosniak, to take over as General Director in the event of Mijatovic's absence for more than five days. The Peace Implementation Council Steering Board Ambassadors (except the Russian Ambassador who was absent) supported Inzko's decision at their September 18 meeting and issued a joint statement condemning RS actions to dissolve the company.

(C) OHR UNCOVERS RS PLANS EARLY

3. (C) Inzko's September 18 decision was an attempt to pre-empt an RS plan to break up Transco. On September 16, OHR received a document, drafted by Mijatovic, the RS Ministry of Energy, and the RS distribution and generation company Elektroprivreda RS (EPRS), which called for Transco's dissolution and division into three autonomous ethnically-based transmission companies in Banja Luka, Sarajevo, and Mostar,

upon the end of Mijatovic's term. In effect, Transco's break-up would have restored the inefficient power supply structure existing prior to Transco's establishment in 2006. (Note: In 2006, the EU supported Transco's creation as an important step toward BiH's EU integration and it was a critical factor in the EU's decision to sign a Stabilization and Association Agreement with Bosnia. End Note).

BRCKO ENTERS THE MIX

¶4. (C) Among the most troubling aspects of the RS plans was the RS intent to assume complete control of Brcko electricity transmission. Deputy Principal High Representative and Supervisor of Brcko District Raffi Gregorian noted in the September 18 Steering Board Ambassadors' meeting that RS leaders had crossed a line with their assumptions on Brcko. In response, Gregorian issued a Supervisory Order mandating that, in the event of Transco's legal dissolution by mutual agreement of the shareholders (i.e. Dodik and his Federation counterpart Prime Minister Mujeginovic), Transco transmission lines and other equipment and property in Brcko territory would be transferred to the District of Brcko.

RS SETS UP SPECIAL CONDITIONS FOR ENERGY TRANSMISSION

¶5. (C) In response to OHR's September 18 and 19 decisions, Dodik countered that the RS would maintain control over all Transco assets in Brcko formerly owned by the RS, refused to accept OHR authority and forbade the RS Gazette from

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publishing the OHR decision. (Comment: The RS's refusal to publish OHR decisions in the RS Gazette potentially threaten the end of the Supervisory Regime in Brcko planned for November, because resolution of the electricity issue is one of the conditions for closure of Brcko Supervision. End Comment). The RS Government adopted conclusions on September 24 declaring that the HighRep had "overstepped his powers," rejecting his "attempted" imposition of laws, and ordering all RS officials to withdraw from Transco's management board. The declaration enacted "special conditions" empowering the RS Ministry of Energy to create an RS electric transmission company responsible for managing and operating electricity transmission throughout the RS. The RS Government also asserted that Gregorian's actions were an illegal expropriation of RS property, and that the RS would not allow its assets in Brcko, reportedly worth KM 16 million (10.7 million USD), to be transferred. (Comment: The September 24 RS government conclusions tracked closely with the September 16 draft that OHR had uncovered. This calls into question Dodik's assertion that RS actions were merely in response to Inzko's and Gregorian's decisions. However, to date, the RS has not taken any further action to divert transmission control from Transco HQ. End Comment).

DODIK DEFIANT

¶6. (SBU) In a September 23 meeting with Ambassador English, Dodik was defiant. He insisted that Inzko withdraw OHR imposed decisions and that the RS could no longer be forced to participate in Transco. He threatened that any further HighRep attempts to impose new decisions on the RS in any matter would lead the RS to reconsider its participation in all State-level institutions. He insisted Transco's reorganization into three independent operational regions, reverting to the pre-2006 arrangement, would reflect the current reality, and would ensure a more equitable distribution of investment funds. He asserted that in such an apportionment, the RS would get at least 42 percent of Transco investment. The Ambassador responded that in fact the RS received 58 percent of Transco investment in 2006-2007, and although there was a proposal in 2008 to shift

investment in the Federation's favor, RS board members failure to attend meetings had blocked any investment whatsoever -- a triumph of spite over economic sense.

TRANSCO MANAGEMENT BOARD HOLDING ITS BREATH

¶17. (SBU) Inzko's September 18th decision empowers the management board, by simple majority, to appoint the Executive Director for Planning Azra Hajro as Acting General Manager until the Board can appoint a new General Manager. The RS members of the management board have not participated in a board meeting since June 2008. Sources informed us that on September 20 General Manager Mijatovic moved from the GM's office to the building's basement, locked up Transco's stamps and seals, and requested that the Ministry of Justice dismiss the Executive Directors. In response to the management board's call for Mijatovic to declare his intentions regarding his position, Mijatovic sent a letter on October 8 declaring that he vacated the position effective September 19. Despite this declaration, the Federation board members, who comprise a simple majority and can appoint Hajro, continue to refrain from appointing her as interim manager for fear that it will provoke the RS to begin preparations to establish its own transmission company.

BLACKOUTS BEGIN

¶18. (SBU) Transco Executive Director for Operations and Maintenance Zdenko Vukic confirmed that, due to the ongoing standoff, Transco has neither invested in nor upgraded the transmission network for 18 months, and it has depleted its spare parts' inventory. Vukic explained that for over a year, the operational areas have been taking spare parts from other areas when necessary. Although the company has maintained its work force, it has neither the tools nor the vehicles necessary to respond to repair requests. He predicts more frequent blackouts this winter, as snow and ice will compound politicians' current threats to the grid.

¶19. (SBU) Vukic's sobering prophecy was fulfilled on the night of October 12 as Sarajevo experienced a fairly widespread blackout as a result of a fault in Transco's 110 KV lines and a heavy, wet accumulation of snow. The Sarajevo operational area lacked spare parts to make the immediate repairs and Transco was forced to shut down part of the network to bridge the system. We also learned that a

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blackout in Sarajevo's Stari Grad (old town) municipality in late September, -- attributed by the media to a fire -- was caused by a failure of an old segment of Transco's 110 KV system in dire need of upgrades. Elektroprivreda BiH Executive Director Emir Aganovic recently told us that electricity failures in Sarajevo at the Kosevo Hospital complex are unrelated to Transco issues. Kosevo district, one of the oldest segments of the distribution grid, is managed by Elektroprivreda BiH and often operates at maximum capacity, causing occasional failures. We have been assured by hospital administrators that the hospital is equipped with generators to prevent problems in the event of a protracted electricity blackout.

COMMENT

¶10. (C) The Transco stalemate is now entering its second year and its effects are beginning to surface. Although Bosnian politicians are masters at finger pointing, we believe that in the event of major power outages, one side or the other will choose to act. Should there be an expanding round of blackouts, social and political pressure may force the Federation to go it alone. This would effectively mean the end of the state transmission company, separating its assets and creating a chaotic electricity market that few

investors would be interested in exploring. If the Republika Srpska agrees to maintain Transco in its current state, but accepts other compromises offered by the Federation (on investment ratios, employees, and 110 KV transfers), investment and spare parts can once again begin flowing to the company.

ENGLISH